

GENERAL FUND FINANCING

County general fund operations are financed with four major types of financing sources: departmental revenue, Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue.

Departmental revenue includes fees, service charges, and state and federal support for programs such as welfare, health care, and behavioral health. Proposition 172 revenue is restricted and is used solely for financing the Sheriff, District Attorney, and Probation departments. Realignment revenue is also restricted and used in financing mental health, social services and health programs within the County.

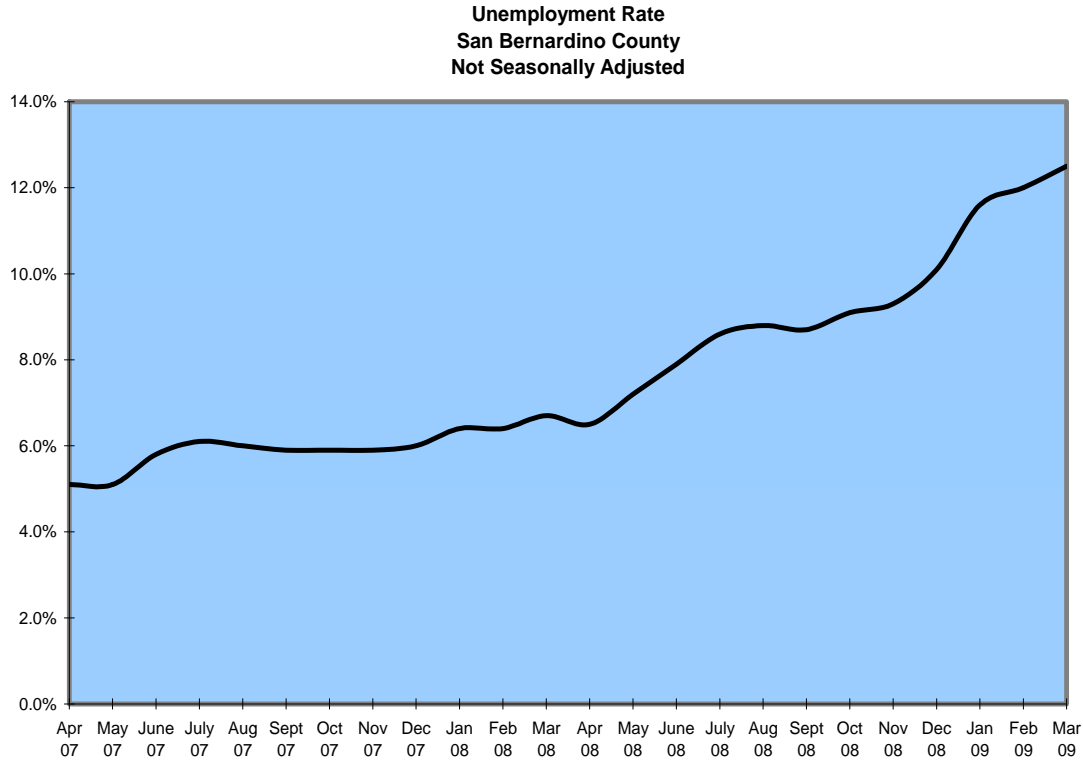
The balance of departmental costs not funded by departmental revenue, Proposition 172 revenue, and/or Realignment revenue is considered local cost or general fund financing. Local cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

Any countywide discretionary revenue not distributed to departments through their local cost allocation is placed in contingencies. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes. One is to ensure that the county can accommodate unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. The second purpose is to be proactive and set aside funds to meet future known obligations or to build a reserve for large capital projects.

The following sections provide details of the economic indicators that are factored into the County's financing plan and how these indicators affect the general fund financing composed of Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue. Furthermore, detailed information is included on the contributions and uses of county general fund contingencies and reserves for 2008-09 and the proposed contributions and uses of general fund contingencies and reserves for 2009-10.

ECONOMIC INDICATORS

San Bernardino County and its residents are being severely impacted by the current economic condition. As shown in the following chart, the County's unemployment rate has increased dramatically over the last 2 years and is currently one of the highest in the nation. For March 2009, the County's unemployment rate is 12.5%. This compares to a rate of 9.0% at the national level and 11.5% for the State of California.



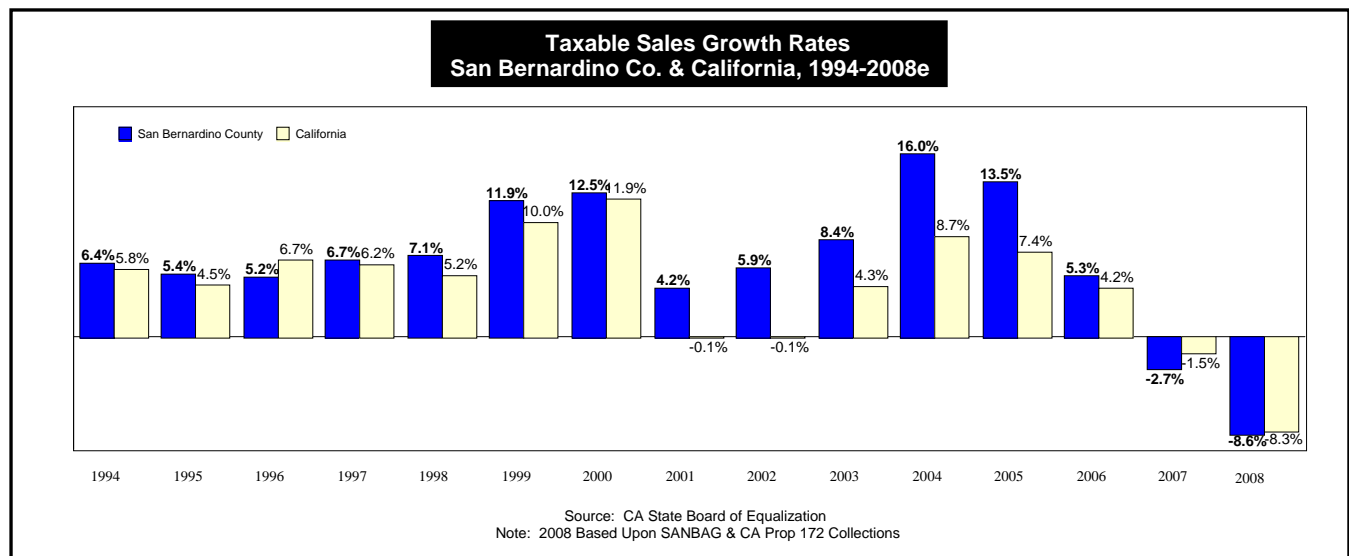
Factors in local unemployment include the dramatic decline in the housing market which has affected jobs in sectors like construction, construction-related manufacturing, retailing, consumer services, escrow, title and real estate. This economic condition has also contributed to steep declines in retail spending.

As a result of the economic downturn, projections for certain general fund revenues have decreased dramatically. For more information see the sections titled 'Proposition 172' and 'Property Related Revenues and the Housing Market' found later in this section of the proposed budget book.

PROPOSITION 172

Proposition 172 (Prop 172), which became effective January 1, 1994, placed a one-half percent sales tax rate in the state's constitution and required that revenue from the additional one-half percent sales tax be used only for local public safety activities, which include but are not limited to sheriff, police, fire protection, county district attorney, and county corrections. Funding from Prop 172 enabled counties and cities to substantially offset the public safety impacts of property tax losses resulting from the state property tax shift to the Educational Revenue Augmentation Fund (ERAF).

Since at least 1994, the county's sales tax growth had exceeded California, often by substantial amounts. However, county's taxable sales fell in 2007, off -2.7% compared to a -1.5% for California. Preliminary data show the county off -8.6% in 2008 due to the recession. The state appears off -8.3%. The difficulty has come about due to the local and nation slowdowns caused by declining residential volume and prices.



The one-half percent sales tax imposed by Prop 172 is collected by the state and apportioned to each county based on its proportionate share of statewide taxable sales. In accordance with Government Code 30055, of the total Prop 172 revenue allocated to San Bernardino County, 5% is distributed to cities affected by the property tax shift and 95% remains within the county.

On August 22, 1995, the County of San Bernardino Board of Supervisors approved the recommendation that defined the following departments as the public safety services designated to receive the county's 95% share of Prop 172 revenue, consistent with Government Code Section 30052 and authorized the Auditor/Controller to deposit the county's portion of the Prop 172 revenue as follows:

➤	Sheriff	70.0%
➤	District Attorney	17.5%
➤	Probation	12.5%

Prop 172 revenue currently represents a significant funding source for the Sheriff, District Attorney, and Probation departments. Each year, as part of the budget development process, Prop 172 projections are developed based on staff analysis of revenue trends and forecasts provided by an outside economist.

Growth in Prop 172 revenue is used first to fund mandated cost increases in these departments, including MOU adjustments, retirement, worker's compensation and insurance. In most years, the mandated cost increases consume the vast majority of Prop 172 revenue growth and all Prop 172 revenue is distributed to the designated departments to maintain current level of service. However, in 2008-09 and 2009-10 the county is expected to realize a reduction in Prop 172 revenue.

On February 13, 2007, the Board of Supervisors approved a policy which requires the county to maintain an appropriation for contingency for Prop 172 funds targeted at no less than 10% of the current year's budgeted Prop 172 revenue. This 10% contingency was created to ensure funding for these public safety departments should the county experience Prop 172 revenue shortfalls in the future. These contingencies will be maintained for each respective department within the Prop 172 restricted general fund.

In some budget years, Prop 172 revenue exceeds budgeted amounts and is considered excess Prop 172 revenue. All excess Prop 172 revenue is set aside in a restricted general fund by department to adhere to the Prop 172 policy.

In 2009-10 the Sheriff, District Attorney and Probation Departments have accumulated the necessary funds to meet the 10% contingency requirement. This was achieved due to the decline in Prop 172 revenue.

The chart below illustrates the anticipated beginning and ending fund balance of this restricted general fund for 2009-10 as well as projected 2009-10 revenue, including interest.

	Estimated Beginning Fund Balance	2009-10 Budgeted Revenue	2009-10 Budgeted Departmental Usage	Estimated Ending Fund Balance	10% Contingency Target	Excess/(Shortfall) in Contingency Target
Sheriff	10,072,720	90,810,000	(90,250,000)	10,632,720	9,081,000	1,551,720
District Attorney	4,034,539	22,977,500	(22,837,500)	4,174,539	2,297,750	1,876,789
Probation	4,004,410	16,412,500	(16,312,500)	4,104,410	1,641,250	2,463,160
Total	18,111,669	130,200,000	(129,400,000)	18,911,669	13,020,000	5,891,669

In 2008-09, the County's Prop 172 sales tax revenue is anticipated to decline by approximately 13%. The County's Prop 172 sales tax revenue for 2009-10 is anticipated to further decline, resulting in a decrease of 3% from 2008-09 estimate.

Prop 172 budgeted revenue and interest for all three departments in 2009-10 is projected to be \$130.2 million (\$129.4 million in Prop 172 receipts and \$0.8 million in interest revenue). Prop 172 revenue is estimated at a 16% decline in 2009-10 from the 2008-09 budget of \$153.4 million. The applicable department's budgeted appropriation in 2009-10 is \$129.4 million. Interest earned will stay in this restricted general fund by department.



REALIGNMENT

In 1991 the state shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and 24.33% of Vehicle License Fee (VLF) revenues made available by a change in the depreciation schedule for vehicles. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the Vehicle License Fee was reduced from 2.0% of the market value of a vehicle to .65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%. This change did not result in increased VLF revenues to Realignment, but simply reflects the same funding amount expressed as a percentage of the reduced revenue collected. Each of the three service areas identified was required to have their own separate accounts established and each of those service areas receive a different share of statewide Realignment revenues.

Within the mental health area, the programs for which the county is now responsible are: community-based mental health programs, State Hospital services for county patients, and Institutions for Mental Disease. Within the social services area, the programs for which the county is now responsible are: the county revenue stabilization program and the county justice subvention program. Within the health area, the programs for which the county is now responsible are: AB8 county health services, local health services, medically indigent services, and the county medical services program.

In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. Below are the programs involved in the cost sharing ratio changes (numbers are shown in percentages in the order of state/county shares of cost). For example, prior to Realignment, Foster Care costs were funded by 95% state resources and 5% county resources. Now Foster Care is funded by 40% state resources and 60% county resources, which is a significant impact to the county.

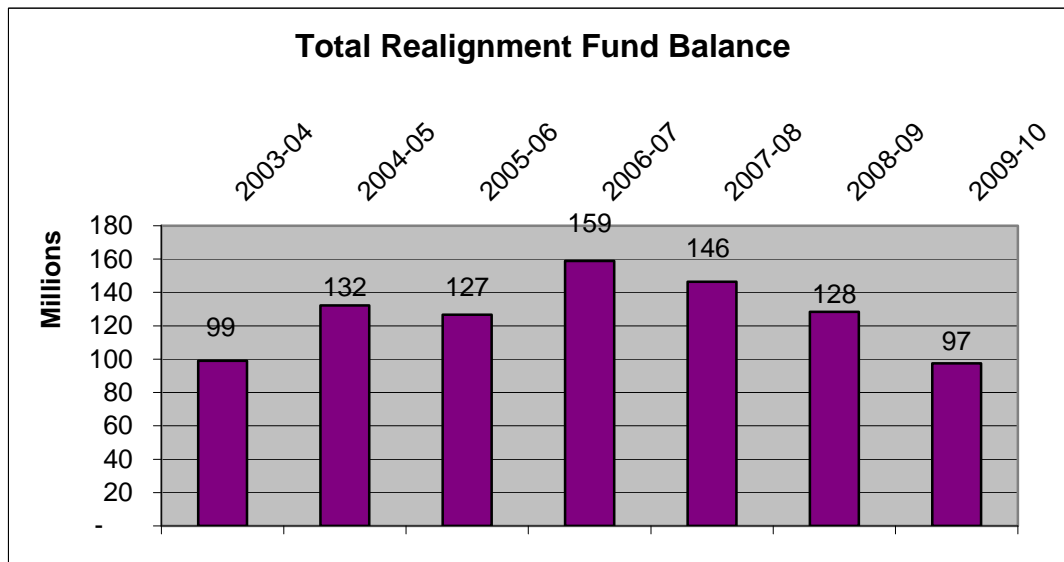
	From State/County	To State/County
Social Services programs:		
Foster Care	95/5	40/60
Child Welfare Services	76/24	70/30
Adoption Assistance	100/0	75/25
CalWORKs	89/11	95/5
County Services Block Grant	84/16	70/30
Greater Avenues for Independence	100/0	70/30
Social Services administration	50/50	70/30
In Home Supportive Services (IHSS)	97/3	65/35
Health programs:		
California Children's Services	75/25	50/50

The Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First, San Bernardino County is an "under equity county," meaning that the county receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. Realignment did attempt to address the inequity issue, but the effort fell short. The county continues to be under equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, that incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.

In addition to the under equity issue is the fact that the demand for the services the county is providing and the revenue streams funding them are both sensitive to the economy. When the economy does poorly, demand for services is high, but revenues under perform. When the economy is doing well, demand for services is reduced, sales taxes and vehicle license fees revenues are high, and growth in these funding streams is experienced. However, Social Services has priority claim on any sales tax growth received. If the growth is sufficient to cover the increasing Social Services caseload costs, then anything remaining is distributed to the Mental Health and Health realignment funds.

Budgetary Note: Financial information presented in this Realignment budget section is consistent with state reporting requirements for the Realignment funds. The state's reporting requirements are not consistent with the county's implementation of GASB 34 as it relates to revenue accrual. As such, within the county's accounting system, an adjustment will be made to show the correct revenues in accordance with the county's accrual procedures. This is a revenue timing issue only as a result of delays by the state in distributing sales tax growth revenue.

The graph below shows the history of fund balance for all Realignment funds.



Fund balances increased significantly from 2003-04 to 2004-05. The increased fund balance in 2004-05 was driven by lower than expected expenditures in Behavioral Health, Probation, ARMC, and Foster Care.

The decrease in 2005-06 is the result of a one-time transfer of funds to ARMC for the remodel of the 6th floor of the hospital, offset by significant sales tax growth revenue of \$15.3 million, or 21%, within the Social Services Fund.

In 2006-07, significant savings occurred due to less than required realignment support for the ARMC debt service and the availability of ARMC construction litigation monies used to fund budgeted ARMC projects. This savings resulted in an increase of \$32.0 million in fund balance.

During 2007-08 an unanticipated increase in departmental usage for Behavioral Health, resulting from unreimbursed Medi-cal and Title XIX EPSDT claims, coupled with sales tax and vehicle license fee revenue base short falls, resulted in a decrease of \$12.4 million in fund balance.

For 2008-09, anticipated revenue shortfalls of 8.5% and 10.3% for sales tax and vehicle license fees, respectively, offset by significant savings in departmental usage resulted in a decrease of \$18.0 million in fund balance for the period ending June 30, 2009.

For 2009-10, anticipated revenue shortfalls continue due to the ongoing economic condition, with anticipated shortfalls of 8.0% each for both sales tax and vehicle license fees. As a result of these shortfalls, budgeted departmental expenditures are in excess of budgeted revenues, and will continue to result in lowering of trust fund balances. Therefore, anticipated departmental expenditure of realignment funds will be monitored closely, and tailored back where feasible until such time as revenues begin to stabilize.

Budget History for All Realignment Budget Units					
	BUDGET 2007-08	ACTUAL 2007-08	BUDGET 2008-09	ESTIMATE 2008-09	PROPOSED 2009-10
Beginning Fund Balance	161,559,557	158,643,573	146,236,912	146,489,873	128,449,093
Revenue	224,888,389	209,300,061	218,518,239	190,840,442	177,003,533
Departmental Usage	213,757,274	221,453,761	220,617,336	208,881,222	208,055,971
Ending Fund Balance	172,690,672	146,489,873	144,137,815	128,449,093	97,396,655
Change in Fund Balance	11,131,115	(12,153,700)	(2,099,097)	(18,040,780)	(31,052,438)

For 2008-09, actual beginning fund balance is \$252,961 greater than budgeted beginning fund balance. This slight increase is the result of significant departmental savings that were able to offset the equally significant revenue shortfalls for both sales tax and vehicle license fees. However, the extent of the revenue shortfalls (\$27.7 million) are anticipated to surpass departmental savings (\$11.7 million), resulting in an estimated June 30, 2009 ending fund balance that is \$15.7 million less than budget.

For the 2009-10 budget, revenue reflects a decrease of \$41.5 million from the prior year budget. This decrease results from not realizing the budgeted growth in sales tax of 2.7% and growth in vehicle license fees of 4%, as well as recovery of the base shortfalls from prior year, that were included for 2008-09. The unrealized growth is coupled with continued revenue shortfalls of 8.0% each, for both sales tax and vehicle license fees. Offsetting this decrease in revenue are decreases in departmental usage of \$12.6 million from the prior year budget. The 2009-10 budget will use \$31.0 million in fund balance, \$28.9 million from 2009-10 activity and \$2.1 million carry forward from the 2008-09 budget.

SUMMARY OF REALIGNMENT BUDGET UNITS FOR 2009-10				
	Mental Health	Social Services	Health	Total
Estimated Beginning Fund Balance	9,148,937	80,737,438	38,562,718	128,449,093
Budgeted Revenue	50,487,221	75,234,909	51,281,403	177,003,533
Budgeted Departmental Usage	54,326,978	94,056,622	59,672,371	208,055,971
Budgeted 10% Transfers	-	-	-	-
Estimated Ending Fund Balance	5,309,180	61,915,725	30,171,750	97,396,655
Estimated Change in Fund Balance	(3,839,757)	(18,821,713)	(8,390,968)	(31,052,438)
Estimated Ending Fund Balance	5,309,180	61,915,725	30,171,750	97,396,655
10% Contingency Target	5,048,722	7,523,491	5,128,140	17,700,353

The Realignment budget units do not directly spend funds or provide service. They are strictly financing budget units with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

The Realignment legislation does allow for some flexibility in usage of funds at the county level. Upon action by the Board of Supervisors, a county can transfer 10% of a given year's revenue from one budget unit to another. While San Bernardino County has used this provision in the past to help support either the health or social services programs, the County did not do a 10% transfer in 2008-09 and is not budgeting one for 2009-10. However, in the event that such transfer is needed, Board of Supervisors approval is required.

Additionally, an appropriation for contingency of Realignment funds is being presented for 2009-10. This contingency is established at 10% of the current year's budgeted revenue. This 10% contingency is established to ensure funding for the mental health, social services and health budget units should the county experience Realignment revenue shortfalls.



The next three pages contain the breakdown of the fund balance calculations and departmental usage for each of the three individual Realignment budget units.

Mental Health

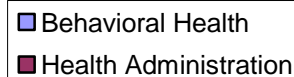
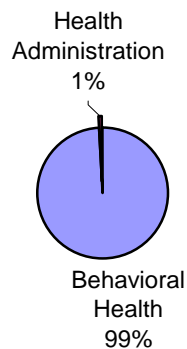
	ACTUAL 2007-08	BUDGET 2008-09	ESTIMATE 2008-09	PROPOSED 2009-10
Beginning Fund Balance	53,781,558	20,689,159	20,994,543	9,148,937
Revenue	59,394,901	61,599,016	54,191,512	50,487,221
Departmental Usage	92,181,916	73,859,589	66,037,118	54,326,978
10% Transfers	-	-	-	-
Ending Fund Balance	20,994,543	8,428,586	9,148,937	5,309,180
Change in Fund Balance	(32,787,015)	(12,260,573)	(11,845,606)	(3,839,757)

In 2007-08, actual revenue of \$59.4 million, offset by actual department expenditure of \$92.2 million resulted in a decrease in fund balance of \$32.8 million. For 2008-09, the Mental Health budget unit is anticipated to spend another \$11.8 million of fund balance. Base short falls in sales tax and vehicle license fees revenue resulted in total revenue \$7.4 million less than budget. Offsetting these revenue short falls are anticipated departmental savings of \$7.8 million less than budget, resulting in an estimated increase of \$414,967 to budgeted fund balance for the period ending June 30, 2009.

For 2009-10, the Mental Health budget unit is anticipated to spend \$3.8 million of fund balance. This use is due primarily to anticipated revenue shortfalls for both sales tax and vehicle license fees. Despite the decrease in departmental usage of \$11.7 million from prior year estimate, which primarily includes the transfer of previously Realignment funded staff to other funding sources, and cuts to contractor services, the Department of Behavioral Health continues to spend at a rate greater than anticipated revenues. As such, the Department continues to closely monitor ongoing Realignment usage, with plans for increased cost reimbursement for Medi-Cal claims and the Mental Health Services Act, as well as continued reductions in contractor expenditures.

Breakdown of Departmental Usage of Mental Health Realignment

	ACTUAL 2007-08	BUDGET 2008-09	ESTIMATE 2008-09	PROPOSED 2009-10
Behavioral Health	91,641,806	73,375,595	65,737,059	53,842,753
Health Administration	540,110	483,994	300,059	484,225
Total Departmental Usage	92,181,916	73,859,589	66,037,118	54,326,978



Social Services

	ACTUAL 2007-08	BUDGET 2008-09	ESTIMATE 2008-09	PROPOSED 2009-10
Beginning Fund Balance	56,824,195	79,208,138	79,199,541	80,737,438
Revenue	89,475,824	94,672,150	81,770,724	75,234,909
Departmental Usage	67,100,478	82,481,141	80,232,827	94,056,622
10% Transfers	-	-	-	-
Ending Fund Balance	79,199,541	91,399,147	80,737,438	61,915,725
Change in Fund Balance	22,375,346	12,191,009	1,537,897	(18,821,713)

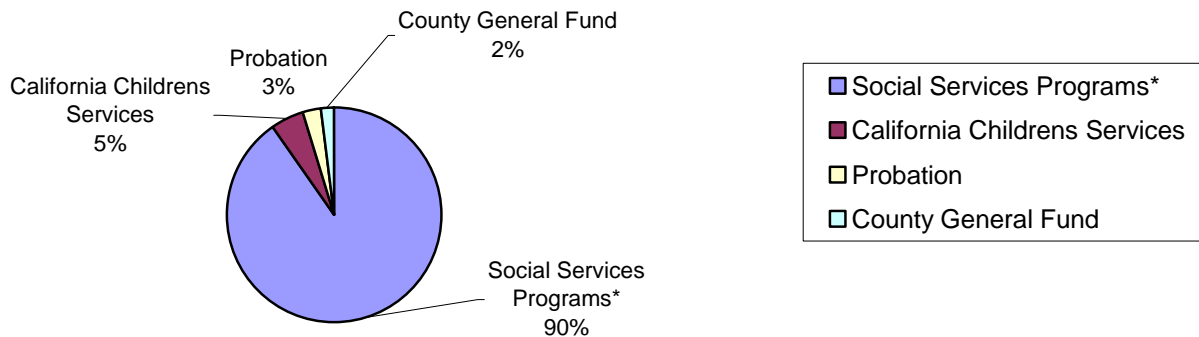
Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees. For 2007-08, actual revenue of \$89.5 million, offset by actual departmental expenditure of \$67.1 million resulted in an increase in fund balance of \$22.4 million. For 2008-09, revenue is estimated at \$12.9 million less than budget. The 2008-09 budget included project growth in sales tax of 2.7% and growth in vehicle license fees of 4%. However, not only will no growth be realized, but actual sales tax and vehicle license fee revenues are anticipated to be 8.5% and 10.3% short of base, respectively. Offsetting this decrease is anticipated department savings of \$2.2 million, resulting in an estimated decrease of \$10.7 million to budgeted fund balance for the period ending June 30, 2009.

For 2009-10, budgeted expense and ongoing revenue are expected to result in usage of fund balance of \$18.8 million. The dramatic increase in budgeted departmental usage for 2009-10 is due to the increased demand on the Social Services budget units, resulting directly from the current economic condition. Increased investments of both Realignment trust as well as local funds are needed to meet the current and anticipated increases in Social Services caseload for 2009-10.

Breakdown of Departmental Usage of Social Services Realignment

	ACTUAL 2007-08	BUDGET 2008-09	ESTIMATE 2008-09	PROPOSED 2009-10
Social Services Programs*	59,315,286	73,621,778	71,742,932	84,947,259
California Childrens Services	3,285,562	4,359,733	3,990,265	4,609,733
Probation	2,700,630	2,700,630	2,700,630	2,700,630
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Departmental Usage	67,100,478	82,481,141	80,232,827	94,056,622

* Soc. Svcs. Programs include: IHSS, Foster Care, Seriously Emotionally Disturbed, and Administrative Claim Matches

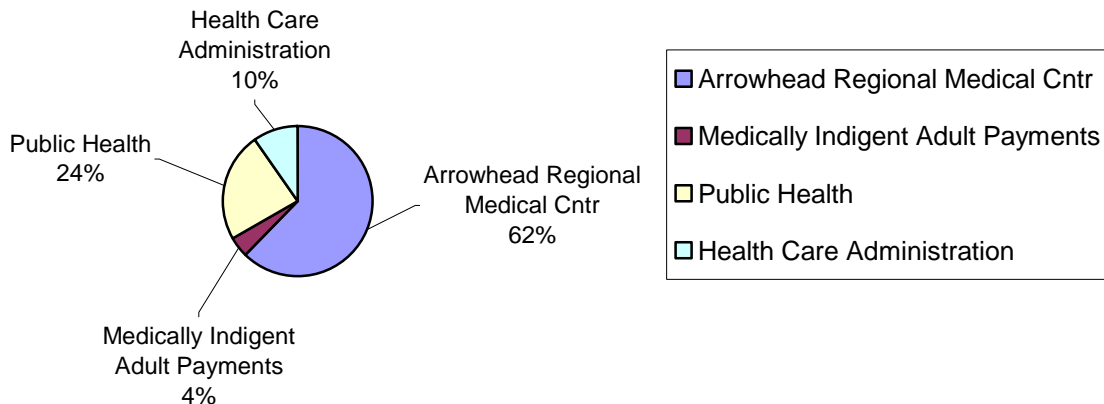


	Health			
	ACTUAL 2007-08	BUDGET 2008-09	ESTIMATE 2008-09	PROPOSED 2009-10
Beginning Fund Balance	48,037,820	46,339,615	46,295,789	38,562,718
Revenue	60,429,336	62,247,073	54,878,206	51,281,403
Departmental Usage	62,171,367	64,276,606	62,611,277	59,672,371
10% Transfers	-	-	-	-
Ending Fund Balance	46,295,789	44,310,082	38,562,718	30,171,750
Change in Fund Balance	(1,742,031)	(2,029,533)	(7,733,071)	(8,390,968)

In 2007-08, actual revenue of \$60.4 million, offset by departmental expenditure of \$62.1 million resulted in a decrease in fund balance of \$1.7 million. For 2008-09, as with the Mental Health and Social Services Realignment budget units, the Health Realignment budget unit anticipates a dramatic decrease in revenues. The decrease of \$7.4 million is primarily the result of anticipated shortfalls in vehicle license fees revenues of 10.3% since Health Realignment is primarily funded with vehicle license fees at 72%, with the remaining 28% coming from sales tax. However, it should be noted that sales tax revenues are also anticipated to be short of base by 8.5%, therefore, exacerbating already declining revenues streams. These decreases are offset by anticipated department expenditure savings of \$1.7 million, resulting in a decrease in fund balance of \$5.7 million as compared to budget.

For 2009-10, the Health budget unit is anticipated to spend another \$8.4 million of fund balance. Again, revenue is budgeted to reflect anticipated shortfalls in base of 8.0% for both sales tax and vehicle license fees. Offsetting this decrease in revenue is the decrease of \$4.6 million in departmental usage from prior year budget. This decrease is primarily the result of reduced Health Care Administration usage to reflect decreased net debt service payments, as well as decreased usage by the Arrowhead Regional Medical Center for one-time funded projects.

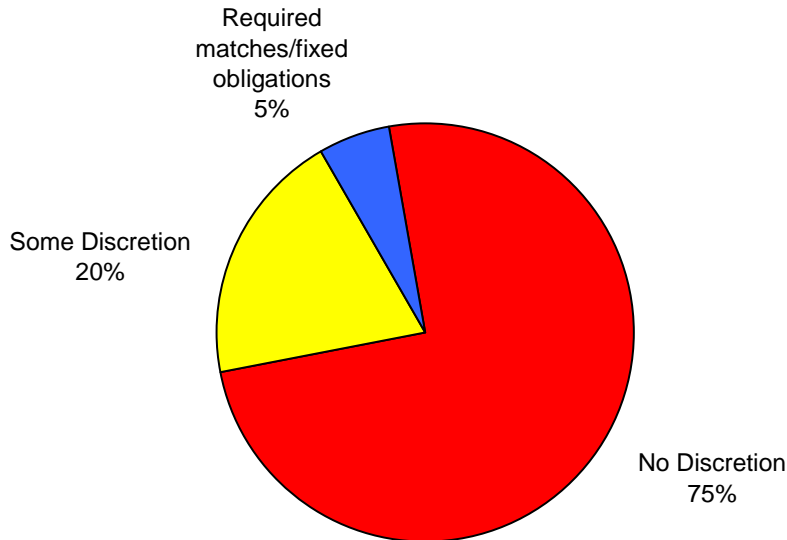
	Breakdown of Departmental Usage of Health Realignment			
	ACTUAL 2007-08	BUDGET 2008-09	ESTIMATE 2008-09	PROPOSED 2009-10
Arrowhead Regional Medical Cntr	35,831,085	39,932,918	37,689,500	37,198,769
Medically Indigent Adult Payments	2,550,000	2,550,000	2,550,000	2,550,000
Public Health	13,042,558	14,729,074	13,604,040	14,164,292
Health Care Administration	10,747,724	7,064,614	8,767,737	5,759,310
Total Departmental Usage	62,171,367	64,276,606	62,611,277	59,672,371



COUNTYWIDE DISCRETIONARY REVENUE

The entire general fund budget including operating transfers in is \$2.4 billion, however, the Board of Supervisors has no discretion on \$1.8 billion of this amount as seen in this pie chart.

2009-10 Proposed Budget General Fund Spending



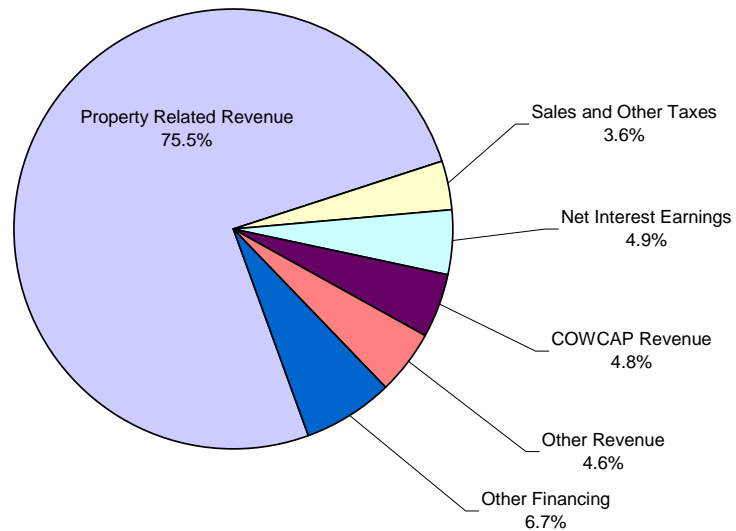
SPENDING WHERE THE BOARD HAS NO DISCRETION. INCLUDES:	1,768,328,106
Welfare costs reimbursed by state and federal monies (\$861.8 million)	
Other program costs funded by program revenues such as user fees (\$906.5 million)	
REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:	128,819,445
SPENDING WHERE THE BOARD HAS SOME DISCRETION. INCLUDES:	471,939,470
Reserve Contributions (\$0.0 million)	
Contingencies Contributions (\$30.8 million)	
Law and justice program costs funded by local revenues (\$301.5 million)	
All other program costs funded by local revenues (\$139.7 million)	
TOTAL:	\$2,369,087,021

The Board of Supervisors has authority over the countywide discretionary revenue, which totals \$600,758,915. This countywide discretionary revenue is first obligated to pay for the required health and welfare matches and other fixed obligations, which total \$128,819,445. The remaining amount of \$471,939,470 is available for the Board's discretion and finances departmental budgets' local cost.



Shown below are the sources of the countywide discretionary revenue proposed for 2009-10, which total \$600,758,915:

Discretionary Revenue by Category 2009-10 Proposed Budget



Other Revenue Includes: Property Tax Admin Revenue, Other State and Federal Aid, Recording Fee Revenue, and Other Revenue.

Other Financing Includes: Fund Balance and Operating Transfers.

Percentages may not add to 100% due to rounding.

**COUNTYWIDE DISCRETIONARY REVENUE
WHICH PAY FOR GENERAL FUND LOCAL COST**

	Restated 2007-08 Final Budget	2008-09 Final Budget	2008-09 Estimate	2009-10 Proposed Budget
Countywide Discretionary Revenue				
Property Related Revenue:				
Current Secured, Unsecured, Unitary	206,738,207	222,083,877	221,067,800	214,778,726
VLF/Property Tax Swap	208,146,542	221,512,046	225,972,474	212,651,564
Supplemental Property Tax	14,000,000	14,000,000	9,000,000	7,000,000
Property Transfer Tax	15,000,000	8,500,000	5,600,000	5,600,000
Sales Tax/Property Tax Swap	6,447,235	5,771,432	4,401,212	5,194,289
Penalty on Current Taxes	2,272,832	2,272,832	2,570,000	2,570,000
Prior Property Taxes, Penalties and Interest	3,860,659	3,860,659	6,389,011	5,600,000
Total Property Related Revenue	456,465,475	478,000,846	475,000,497	453,394,579
Sales and Other Taxes:				
Sales and Use Tax	16,432,119	17,005,469	12,000,000	12,324,000
Franchise Fees	7,120,050	7,493,050	6,700,000	7,031,651
Hotel/Motel Tax	1,200,000	1,400,000	1,500,000	1,400,000
Other Taxes	750,000	790,000	955,000	790,000
Total Sales and Other Taxes	25,502,169	26,688,519	21,155,000	21,545,651
Net Interest Earnings	31,000,000	33,000,000	33,000,000	29,460,484
COWCAP Revenue	25,196,750	27,958,508	27,620,953	28,797,263
Property Tax Admin Revenue	13,800,000	17,800,000	16,500,000	17,800,000
Recording Fee Revenue	8,616,493	5,200,000	3,500,684	3,500,000
State and Federal Aid	3,660,738	3,649,060	4,676,981	3,691,611
Booking Fee Revenue	3,000,000	-	-	-
Treasury Pool Management Fees	2,503,298	2,609,234	2,609,234	-
Other Revenue	2,430,000	2,430,000	1,930,000	2,430,000
Total Countywide Discretionary Revenue	572,174,923	597,336,167	585,993,349	560,619,588
Other Financing Sources				
Fund Balance, beginning	56,425,431	77,342,818	77,342,818	20,257,758
Reimbursements	-	-	-	-
Use of Reserves	2,688,000	4,096,300	-	-
Operating Transfers In	19,105,406	19,285,813	19,285,813	19,881,569
Total Other Financing Sources	78,218,837	100,724,931	96,628,631	40,139,327
Total Countywide Discretionary Revenue and Other Financing Sources	650,393,760	698,061,098	682,621,980	600,758,915

The restatement of the 2007-08 revenue numbers is due to the reclassification of Property Transfer Tax and Sales Tax / Property Tax Swap into the Property Related Revenue category from the Sales and Other Taxes category.

The 2009-10 general fund financing includes Countywide Discretionary Revenue of \$560.6 million and Other Financing Sources of \$40.1 million.



Countywide Discretionary Revenue

Property Related Revenues and the Housing Market. Property Related Revenues account for over 75% of the County's discretionary revenues. These revenues will be severely impacted as a result of the mortgage and economic crisis, which has had a significant effect on the housing market within the County.

The secured property tax roll published in July 2008 contained approximately 707,000 residential parcels. In calendar year 2008, foreclosures in the County totaled 25,000, which represented a 200% increase from the 8,300 foreclosures in 2007. The quantity of homes for sale has contributed to a steep decline in sale prices and the reduction in the fair market value of homes in certain neighborhoods and surrounding communities. Information provided by a local economist and Dataquick Information Services shows that the median sales price of a home in the fourth quarter of 2008 had declined 57.4%, to \$158,902 (mid 2002 level), as compared to the peak of \$373,381 in the fourth quarter of 2006. However, the number of homes sold, which was down 46.3% in calendar year 2007, was up 52% in the second half of 2008 and up 99.5% for the first quarter of 2009 (as compared to the respective prior periods). Approximately 60.7% of County residents can now afford a median priced home (using 2007 income levels).

Assessed valuation is negatively affected both by homes selling at prices lower than their current assessed valuation, and by Proposition 8 reassessments, which lower valuations of properties (where no change in ownership has occurred) if the current assessed value of such property is greater than the fair market value of the property. As a result of both of these factors, the County anticipates a 6% reduction in secured assessed valuation in 2009-10. This includes \$14.2 billion in assessed value reductions from Proposition 8 reassessments, which, when combined with the prior year reassessments, will bring Proposition 8 value reductions to a total of \$21.4 billion.

Secured Property Tax

Secured Property Tax Revenue makes up \$192.7 million of the \$214.8 million in the 2009-10 "Current Secured, Unsecured, Unitary" budgeted revenue number. This budgeted amount anticipates a 6% decrease in secured property tax as compared to 2008-09 projections per the indicators above.

VLF/Property Tax Swap

Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose financing. Beginning in Fiscal Year 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State general fund revenue (the 'VLF Backfill').

The VLF Backfill was eliminated in the 2004-05 State budget. In that year, the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

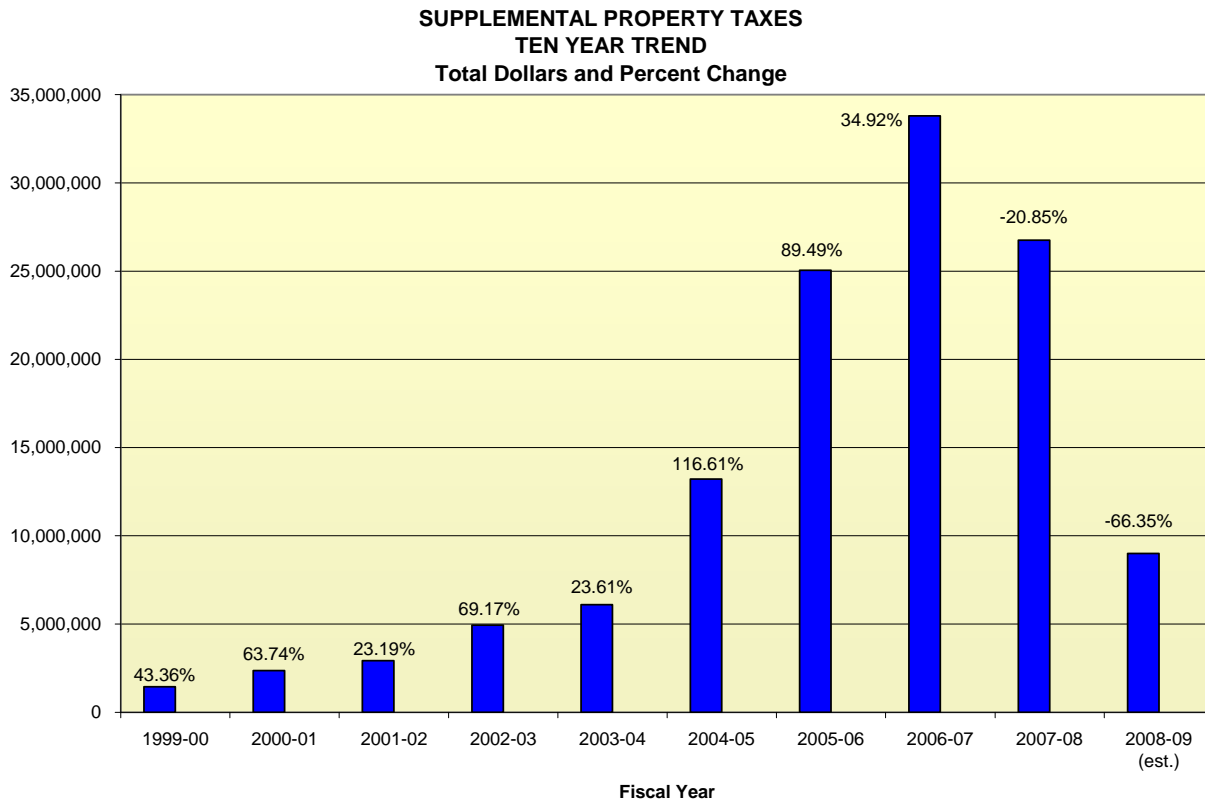
For 2004-05, the State established the base amount of the VLF/Property Tax Swap. The base is equal to the amount of VLF backfill that the counties and cities would have received in 2004-05, calculated using actual VLF receipt amounts for 2004-05. For years beginning in 2005-06, the VLF/Property Tax Swap amount is calculated using the prior year VLF/Property Tax Swap amount adjusted by the percent change in assessed valuation. This percent change includes both secured and unsecured assessed valuation, but excludes the change in unitary valuations. For 2009-10, it is projected that this revenue will decrease 6.0% over 2008-09 estimated revenue per the facts on the housing market above.



Supplemental Property Tax

Supplemental Property Tax payments are required from property owners when there is a change in the assessed valuation of their property after the property tax bill for that year has been issued. Generally there are two types of events that will require a supplemental property tax payment: a change in ownership or the completion of new construction. As a result, when property values have been increasing and sales activity is high, there will be an increase in the number and dollar amount of supplemental property tax bills, which will result in increased supplemental property tax revenue to the County. Conversely, when values are decreasing and home sales are high, refunds may be due to homeowners, and supplemental property tax revenues will decrease.

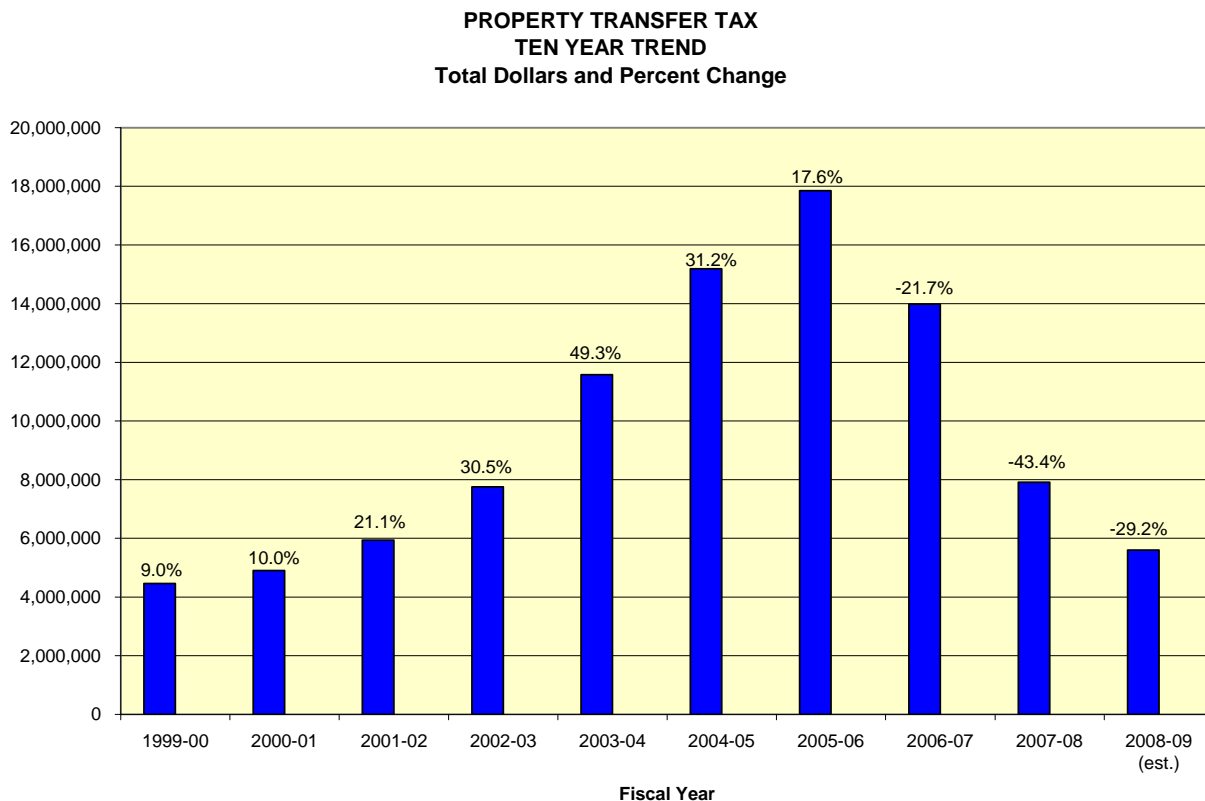
In years prior to 2007-08, the county experienced a dramatic rise in supplemental property tax revenue related to a strong housing market. Because the collection of these revenues may not occur for one to two years after the sale of the property, supplemental property tax revenue will generally lag the reality in the housing market by at least a year.



The County anticipated a housing slowdown in 2006-07 by budgeting a conservative \$14.0 million for supplemental property taxes. Although actual revenues for 2006-07 totaled \$33.8 million and revenues for 2007-08 totaled \$26.7 million, the final budget for 2008-09 remained at \$14.0 million. As discussed above, the County anticipates a 6% decline in assessed valuation due in part to homes selling at prices lower than their current assessed values. When such a home sale occurs after the property tax bill is issued, a refund may be due to the taxpayer. Due to the rapid decline in assessed valuations, the County is estimating 2008-09 revenues at \$9.0 million, with a projection of \$7.0 million for 2009-10.

Property Transfer Tax

The Property Transfer Tax is collected when any lands, tenements, or other realty sold within the County is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser. The tax is imposed when the value of the property exceeds \$100. The tax rate is \$ 0.55 for each \$500 of property value. For sales in the unincorporated areas of the County, the County receives 100% of the tax. For sales in cities, the County receives 50% of the tax. This revenue has increased dramatically over recent years due to the high volume of housing sales and increasing housing prices, but is now declining due to the downturn in the housing market. Although home sales are currently soaring, the decrease in the median price of homes sold has caused this revenue to decline and it is anticipated that it will now remain relatively flat. As a result, the County is estimating 2008-09 and 2009-10 revenues at \$5.6 million. The following chart presents the most recent ten year trend of property transfer tax revenue.



Sales Tax/Property Tax Swap

Effective with the fiscal year that began on July 1, 2004, the State changed the way sales tax revenue is distributed to counties and cities. Previously, counties and cities received 1% of the State's base 7.25% sales tax rate. Pursuant to new provisions enacted by the legislature, this 1% share of sales tax was reduced by .25%, to .75%. The additional .25% in sales tax revenue is redirected to the State to be used to fund debt service on the California Economic Recovery Bonds, which were approved by voters as Proposition 57. In return, counties and cities receive additional property tax revenue in an amount equal to the .25% sales tax revenues forgone, funded by reducing the schools share of property tax revenue. The state general fund then makes up the loss of property tax revenue to the schools. This change is referred to as the 'Triple Flip'. This Triple Flip will continue until the California Economic Recovery Bonds are paid.

The Triple Flip was designed to replace sales tax revenue on a dollar for dollar basis with property tax revenue. In practice, the additional property tax revenue paid to the counties and cities each year is based on an estimate of the agencies' sales tax revenue for the year plus a 'true-up' from the prior year. This true-up represents the difference between the additional property tax revenue paid to the local agency and the actual amount of sales tax revenue (the .25%) lost by the agency.

Sales and Use Tax

Countywide discretionary revenue includes .75% of the county's 7.75% sales tax rate charged on purchases made in the unincorporated areas of the County.

When preparing the annual budget, the County projects future sales tax revenue based on data provided by a local economist. For 2009-10, the economist has projected total sales tax revenues in the unincorporated area of \$13.4 million (after adjusting for the Triple Flip). The County has budgeted \$12.3 million. This amount is included in the proposed budget and reflects a 27.5% decrease from the prior year budgeted amount due to abnormally low revenues in this recession.

The major reasons for the difference between the numbers of the economist and the County include:

Sales Tax Sharing Agreement with the City of Redlands

In August of 2003, the County entered into a sales tax sharing agreement with the City of Redlands. Under the terms of this agreement, the City of Redlands provides government services to an unincorporated area of the County, and in return the County pays the city a percentage of the sales tax revenue generated in that geographical area. This geographic area has and continues to add numerous retail establishments and generates a considerable amount of sales tax revenue. Under the terms of the sales tax sharing agreement, the County currently pays the City of Redlands 90% of the County's discretionary sales tax revenue generated in this area.

Potential Annexations and Incorporations

Based on recent estimates, and adjusted for recent annexations, approximately 35% of the County's discretionary sales tax revenue is generated in the unincorporated portion of the spheres of influence of the 24 cities that are within the County's boundaries. A sphere of influence is a 'planning boundary' within which a city or district is expected to grow into over time. Therefore, the areas within these spheres are likely to be annexed, and once annexed, the discretionary sales tax revenue generated in that area will go to the city instead of the County. The County would also lose sales tax revenue if a community in the unincorporated area of the County decided to create a new city (incorporate).

Net Interest Earnings

Net interest earnings for 2009-10 are projected at \$29.5 million. This is a decrease of \$3.5 million from the prior year and is due to lower available investment rates and anticipated lower cash balances in the general fund.

COWCAP (County-Wide Cost Allocation Plan) Revenue

COWCAP revenue is reimbursement for overhead/indirect costs incurred by the general fund. Reimbursements are received from various state and federal grant programs (that permit such reimbursement) and fee supported general fund departments and taxing entities such as the library and Board-governed special districts. The budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2009-10 County-Wide Cost Allocation Plan (COWCAP) published by the Auditor/Controller-Recorder.

Property Tax Admin Revenue

Property Tax Administration revenue consists of:

- SB 813 cost reimbursement, which represents allowable charges for administration and operation of the supplemental property tax program. This reimbursement is tied directly to the performance of supplemental property tax revenue.
- The property tax administrative fee, which the legislature provided to allow counties to recover the cost of the property assessment and tax collection process from certain other local jurisdictions. This revenue is tied directly to the cost of that collection effort.

Recording Fee Revenue

The Recorder's Division of the County's Auditor/Controller-Recorder's Office collects certain fees for the official recording of documents. Recording Fees are expected to decrease by \$1.7 million over the 2008-09 budgeted amount due to the decrease in document recordings in the current year.

State and Federal Aid

State and Federal aid consists of a payment from the welfare realignment trust fund, which replaced the state revenue stabilization program, and SB90 reimbursements from the state. It also includes revenues received from the Federal government's Payment in Lieu of Taxes (PILT) program. Under current law, local governments are compensated through various programs for losses to their tax bases due to the presence of most federally owned land.

Treasury Pool Management Fees

For the fiscal years 2006-07 through 2008-09, countywide discretionary revenue included cost reimbursement for the management of the County's investment pool. For 2009-10, this revenue will be budgeted again in the Treasurer/Tax Collector's budget unit.

Other Revenue

Other revenue includes overhead charges recovered through city law enforcement contracts with the Sheriff's Department, voided warrants issued by the county, projected transfers of unclaimed property tax refunds to the general fund, the county share of vehicle code violation revenue, and other miscellaneous revenues.

Other Financing Sources**Fund Balance and Reimbursements**

The 2008-09 estimated year-end fund balance for the general fund is \$20.3 million.

Use of Reserves

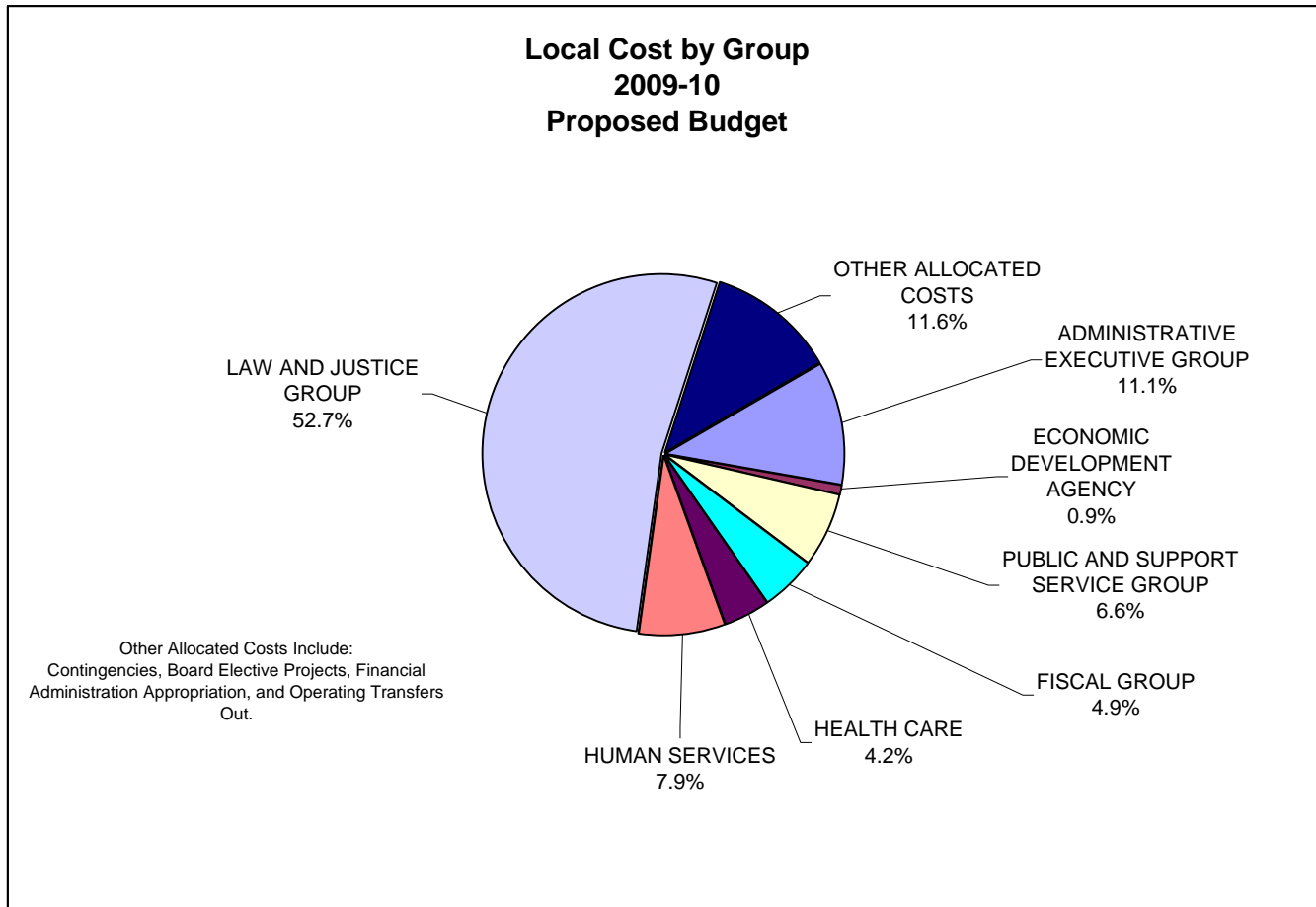
The 2009-10 budget anticipates no draws on reserves.

Operating Transfers In

Operating transfers in include transfers from the Courthouse and Criminal Justice Construction funds of \$4.1 million to finance debt service on the Foothill Law and Justice Center, and \$15.0 million of tobacco settlement funds to provide funding for debt service on the Arrowhead Regional Medical Center.



Countywide discretionary revenue is allocated as local cost to various general fund departments within the county. The pie chart below shows what percentage of the local cost is allocated to each of the groups.



Percentages may not add to 100% due to rounding.

The schedule on the following page shows a comparison of prior year local cost and current year proposed local cost by department. This schedule also includes appropriation and revenue, including operating transfers, which are mechanisms to move financing between the various county budget units. Operating transfers are presented in the following chart because the intended purpose is to provide a complete picture of the department's appropriation and revenue. Operating transfers are excluded from the countywide appropriation and revenue summaries presented in the County Budget Summary section, as their inclusion would overstate countywide appropriation and revenue on a consolidated basis.

Department Title	2008-09 Final Budget:			2009-10 Proposed Budget:			Change Between 2008-09 Final & 2009-10 Proposed:		
	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	6,975,899	-	6,975,899	7,519,518	-	7,519,518	543,619	-	543,619
BOARD OF SUPERVISORS - LEGISLATION	902,075	-	902,075	-	-	-	(902,075)	-	(902,075)
CLERK OF THE BOARD	1,558,975	126,665	1,432,310	2,159,109	115,235	2,043,874	600,134	(11,430)	611,564
COUNTY ADMINISTRATIVE OFFICE	5,608,994	-	5,608,994	6,317,628	-	6,317,628	708,634	-	708,634
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	388,681	-	388,681	388,681	-	388,681	-	-	-
COUNTY ADMINISTRATIVE OFFICE - JOINT POWERS LEASES	21,812,356	-	21,812,356	21,203,394	-	21,203,394	(608,962)	-	(608,962)
COUNTY COUNSEL	10,600,311	5,080,585	5,519,726	10,222,650	5,693,368	4,529,282	(377,661)	612,783	(990,444)
HUMAN RESOURCES	7,311,757	343,750	6,968,007	6,105,255	358,650	5,746,605	(1,206,502)	14,900	(1,221,402)
HUMAN RESOURCES-EMPLOYEE HEALTH AND WELLNESS	1,375,368	1,059,368	316,000	999,134	-	-	(376,234)	(60,234)	(316,000)
HUMAN RESOURCES-UNEMPLOYMENT INSURANCE	4,000,500	-	4,000,500	4,000,500	-	4,000,500	-	-	-
INFORMATION SERVICES-APPLICATION DEVELOPMENT	16,518,216	5,089,326	11,428,890	15,083,535	5,610,195	9,473,340	(1,434,681)	520,869	(1,955,550)
PURCHASING	1,436,783	184,143	1,252,640	1,443,974	424,725	1,019,249	7,191	240,582	(233,391)
LOCAL AGENCY FORMATION COMMISSION	350,000	-	350,000	350,000	-	350,000	-	-	-
COUNTY SCHOOLS	4,308,605	-	4,308,605	4,325,044	-	4,325,044	16,439	-	16,439
ADMIN/EXECUTIVE GROUP SUBTOTAL:	83,148,520	11,883,837	71,264,683	80,118,422	13,201,307	66,917,115	(3,030,098)	1,317,470	(4,347,568)
ECONOMIC DEVELOPMENT	7,318,898	580,000	6,738,898	5,210,767	80,000	5,130,767	(2,108,131)	(500,000)	(1,608,131)
ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:	7,318,898	580,000	6,738,898	5,210,767	80,000	5,130,767	(2,108,131)	(500,000)	(1,608,131)
ASSESSOR	19,138,707	1,050,000	18,088,707	16,300,912	1,222,000	15,078,912	(2,837,795)	172,000	(3,009,795)
AUDITOR/CONTROLLER-RECORDER	19,071,494	6,610,723	12,460,771	17,108,441	6,232,680	10,875,761	(1,963,053)	(378,043)	(1,585,010)
TREASURER-TAX COLLECTOR/PUBLIC ADMINISTRATOR	20,890,456	13,706,190	7,184,266	21,429,022	17,700,948	3,728,074	538,566	3,994,758	(3,456,192)
FISCAL GROUP SUBTOTAL:	59,100,657	21,366,913	37,733,744	54,838,375	25,155,628	29,682,747	(4,262,282)	3,788,715	(8,050,997)
HEALTH CARE ADMINISTRATION	64,703,404	49,703,404	15,000,000	73,908,023	58,908,023	15,000,000	9,204,619	9,204,619	-
BEHAVIORAL HEALTH	197,547,716	195,704,963	1,842,753	209,555,393	207,712,640	1,842,753	12,007,677	12,007,677	-
BEHAVIORAL HEALTH - ALCOHOL AND DRUG SERVICES	23,105,034	22,955,576	149,458	22,888,424	22,738,966	149,458	(216,610)	(216,610)	-
PUBLIC HEALTH	81,595,216	78,022,947	3,572,269	83,092,275	79,820,646	3,271,629	1,497,059	1,797,699	(300,640)
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	19,960,669	15,600,936	4,359,733	18,031,236	13,421,503	4,609,733	(1,929,433)	(2,179,433)	250,000
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501	-	-	-
HEALTH CARE SUBTOTAL:	387,384,540	361,987,826	25,396,714	407,947,852	382,601,778	25,346,074	20,563,312	20,613,952	(50,640)
AGING AND ADULT SERVICES	10,184,380	8,952,676	1,231,704	10,326,098	9,118,478	1,207,620	141,718	165,802	(24,084)
AGING AND ADULT SERVICES - PUBLIC GUARDIAN	1,166,177	387,792	778,385	1,097,924	500,354	597,570	(68,253)	112,562	(180,815)
CHILD SUPPORT SERVICES	40,082,554	40,082,554	-	39,351,268	39,351,268	-	(731,286)	(731,286)	-
HUMAN SERVICES - ADMINISTRATIVE CLAIM	360,927,035	338,730,083	22,196,952	391,512,144	372,008,078	19,504,066	30,585,109	33,277,995	(2,692,886)
DOMESTIC VIOLENCE/CHILD ABUSE	1,622,818	1,622,818	-	1,638,805	1,638,805	-	15,987	15,987	-
ENTITLEMENT PAYMENTS (CHILD CARE)	85,905,228	85,905,228	-	45,994,200	45,994,200	-	(39,911,028)	(39,911,028)	-
OUT OF HOME CHILD CARE	859,415	-	859,415	859,415	-	859,415	-	-	-
AID TO ADOPTIVE CHILDREN	42,543,049	40,655,896	1,887,153	46,955,024	45,067,871	1,887,153	4,411,975	4,411,975	-
AFDC-FOSTER CARE	94,387,086	80,826,584	13,560,502	85,500,144	74,106,653	11,393,491	(8,886,942)	(6,719,931)	(2,167,011)
REFUGEE CASH ASSISTANCE	100,000	100,000	-	100,000	100,000	-	-	-	-
CASH ASSISTANCE FOR IMMIGRANTS	623,764	623,764	-	637,528	637,528	-	13,764	13,764	-
CALWORKS-ALL OTHER FAMILIES	228,225,185	223,207,546	5,017,639	275,998,904	269,786,911	6,211,993	47,773,719	46,579,365	1,194,354
KINSHIP GUARDIANSHIP ASSISTANCE PROGRAM	6,161,472	5,135,205	1,026,267	6,304,032	5,104,032	1,200,000	142,560	(31,173)	173,733
SERIOUSLY EMOTIONALLY DISTURBED	5,000,301	3,976,989	1,023,312	5,615,961	4,592,649	1,023,312	615,660	615,660	-
CALWORKS-2 PARENT FAMILIES	24,880,956	24,276,491	604,465	43,460,670	42,360,670	1,100,000	18,579,714	18,084,179	495,535
AID TO INDIGENTS (GENERAL RELIEF)	1,469,770	451,134	1,018,636	1,742,025	420,000	1,322,025	272,255	(31,134)	303,389
VETERAN'S AFFAIRS	1,488,402	349,250	1,139,152	1,628,933	402,500	1,226,433	140,531	53,250	87,281
HUMAN SERVICES SUBTOTAL:	905,627,592	855,284,010	50,343,582	958,723,075	911,189,997	47,533,078	53,095,483	55,905,987	(2,810,504)
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	157,430	157,430	-	182,226	182,226	-	24,796	24,796	-
COUNTY TRIAL COURTS - GRAND JURY	388,592	-	388,592	390,660	-	390,660	2,068	-	2,068
COUNTY TRIAL COURTS - INDIGENT DEFENSE PROGRAM	9,283,413	125,000	9,158,413	9,283,413	125,000	9,158,413	-	-	-
COUNTY TRIAL COURTS - COURT FAC/JUDICIAL BENEFITS	1,875,564	-	1,875,564	1,887,583	-	1,887,583	12,019	-	12,019
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	869,334	-	869,334	2,779,442	-	2,779,442	1,910,108	-	1,910,108
COUNTY TRIAL COURTS - MAINTENANCE OF EFFORT	35,736,490	25,110,000	10,626,490	35,036,490	24,410,000	10,626,490	(700,000)	(700,000)	-
DISTRICT ATTORNEY - CRIMINAL	66,671,268	40,292,888	26,378,380	66,750,784	36,258,507	30,492,277	79,516	(4,034,381)	4,113,897
LAW & JUSTICE GROUP ADMINISTRATION	232,161	78,503	153,658	235,029	78,503	156,526	2,868	-	2,868
PROBATION-ADMIN. CORRECTIONS & DETENTION	114,124,910	49,243,806	64,881,104	115,552,672	48,038,596	67,514,076	1,427,762	(1,205,210)	2,632,972
PROBATION-COURT ORDERED PLACEMENTS	3,122,330	-	3,122,330	2,528,834	-	2,528,834	(593,496)	-	(593,496)
PROBATION- JUVENILE JUSTICE GRANT PROGRAM	-	-	-	-	-	-	-	-	-
PUBLIC DEFENDER	33,786,524	1,702,204	32,084,320	34,602,546	2,427,438	32,175,108	816,022	725,234	90,788
SHERIFF-CORONER	415,623,711	271,275,863	144,347,848	421,394,903	262,355,393	159,039,510	5,771,192	(8,920,470)	14,691,662
LAW AND JUSTICE GROUP SUBTOTAL:	681,871,727	387,985,694	293,886,033	690,624,582	373,875,663	316,748,919	8,752,855	(14,110,031)	22,862,886
PUBLIC AND SUPPORT SERVICES GROUP ADMIN	1,977,648	-	1,977,648	-	-	-	(1,977,648)	-	(1,977,648)
AGRICULTURE, WEIGHTS AND MEASURES	6,548,707	4,075,133	2,473,574	6,334,081	4,378,133	1,955,948	(214,626)	303,000	(517,626)
AIRPORTS	2,767,147	2,767,147	-	2,789,976	2,789,976	-	22,829	22,829	-
ARCHITECTURE AND ENGINEERING	585,320	-	585,320	538,494	-	538,494	(46,826)	-	(46,826)
COUNTY MUSEUM	4,144,827	1,520,579	2,624,248	3,412,758	1,760,400	1,652,358	(732,069)	239,821	(971,890)
FACILITIES MANAGEMENT	14,479,851	5,174,237	9,305,614	12,420,157	5,577,794	6,842,363	(2,069,694)	403,557	(2,463,251)
FACILITIES MANAGEMENT - UTILITIES	17,879,196	371,082	17,508,114	18,895,726	1,178,164	17,717,562	1,016,530	807,082	209,448
LAND USE SERVICES - ADMINISTRATION	440,000	440,000	-	-	-	-	(440,000)	(440,000)	-
LAND USE SERVICES - CURRENT PLANNING	3,335,080	3,335,080	-	3,165,256	3,165,256	-	(169,824)	(169,824)	-
LAND USE SERVICES - ADVANCED PLANNING	5,095,642	2,390,858	2,704,784	3,929,714	2,437,633	1,492,081	(1,165,928)	46,775	(1,212,703)
LAND USE SERVICES - BUILDING AND SAFETY	10,244,406	10,244,406	-	8,390,773	8,390,773	-	(1,853,633)	(1,853,633)	-
LAND USE SERVICES - CODE ENFORCEMENT	4,993,795	560,300	4,433,495	4,418,196	859,800	3,558,396	(575,599)	299,500	(875,099)
LAND USE SERVICES - FIRE HAZARD ABATEMENT	2,851,163	2,851,163	-	2,888,411	2,888,411	-	37,248	37,248	-
PUBLIC WORKS-SURVEYOR	5,203,207	4,935,069	268,138	4,754,089	4,507,402	246,687	(449,118)	(427,667)	(21,451)
REAL ESTATE SERVICES	2,544,054	1,538,500	1,005,554	2,047,134	1,337,460	709,674	(496,920)	(201,040)	(295,880)
REAL ESTATE SERVICES - RENTS AND LEASES	419,311	419,311	-	429,355	429,355	-	10,044	10,044	-
REAL ESTATE SERVICES - COURTS PROPERTY MANAGEMENT	382,430	337,430	45,000	2,375,357	2,330,357	45,000	1,992,927	1,992,927	-
REGIONAL PARKS	10,026,441	7,236,617	2,789,824	9,605,131	7,748,440	1,856,691	(421,310)	511,823	(933,133)
REGISTRAR OF VOTERS	8,418,890	3,480,870	4,938,020	7,934,942	4,944,379	2,990,563	(483,948)	1,463,509	(1,947,457)
PUBLIC AND SUPPORT SVCS GRP SUBTOTAL:	102,337,115	51,677,782	50,659,333	94,329,550	54,723,733	39,605,817	(8,007,565)	3,045,951	(11,053,516)
GENERAL FUND DEPARTMENT SUBTOTAL:	2,226,789,049	1,690,766,062	536,022,987	2,291,792,623	1,760,828,106	530,964,517	65,003,574	70,062,044	(5,058,470)
CONTINGENCIES	97,202,694	-	97,202,694	39,236,268	-	39,236,268	(57,966,426)	-	(57,966,426)
RESERVE CONTRIBUTIONS	7,481,825	-	7,481,825	-	-	-	-	-	(7,481,825)
BOARD ELECTIVE PROJECTS	14,830,389	-	14,830,389	3,750,000	-	3,750,000	(11,080,389)	-	(11,080,389)
FINANCIAL ADMINISTRATION APPROPRIATION	7,500,000	7,500,000	-	7,500,000	7,500,000	-	-	-	-
OPERATING TRANSFERS OUT	42,523,203	-	42,523,203	26,808,130	-	26,808,130	(15,715,073)	-	(15,715,073)
TOTAL COUNTYWIDE ALLOCATED COSTS:	169,538,111	7,500,000	162,038,111	77,294,398	7,500,000	69,794,398	(92,243,713)	-	(92,243,713)
GRAND TOTAL:	2,396,327,160	1,698,266,062	698,061,098	2,369,087,021	1,768,328,106	600,758,915	(27,240,139)	70,062,044	(97,302,183)

NOTE: Total countywide allocated costs on this schedule includes appropriation for Financial Administration. This appropriation is offset in the countywide discretionary revenue schedule on the net interest earnings line.



GENERAL FUND – FIVE YEAR OPERATING FORECAST, 2009-10 THROUGH 2013-14

Long-term financial planning is an effective tool for creating sustainable budgets and providing fiscal stability beyond the annual budget horizon. The County creates a five year operating forecast for the purpose of providing the Board of Supervisors with a framework for use in decision-making in order to maintain and continue the fiscal health of the County.

The forecast is not a budget. It is a question of priorities, not fiscal capacity. The plan identifies key factors that affect our fiscal outlook and assesses how difficult balancing the budget may be in the future. It helps us to understand the fiscal challenges facing the County as we make trade-offs between funding priorities.

This forecast is not a prediction of what is certain to happen but rather a projection of what will occur in the absence of any mitigating actions. As such, this plan highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

Significant Issues Impacting the General Fund:

- Revenue Growth has slowed dramatically due to skyrocketing foreclosures and unemployment that has affected home prices, home values and retail spending. This has significantly impacted the County's property tax revenue as well as the County's sales tax revenue, including Prop 172.
- Salaries and Benefits are projected to increase. This increase is based on current negotiated agreements between the County and employee representation units.
- Retirement costs are anticipated to increase due to market losses incurred by the County's pension system.
- Additional Staffing for the Adult Detention Center Expansion will require a significant amount of financing beginning in 2011-12.

(In Millions)

	Forecast				
	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Beginning Financing Available	\$ 4.2	\$ -	\$ -	\$ -	\$ -
<u>Sources and Needs</u>					
Revenue Growth	(60.4)	(11.3)	12.0	12.2	12.5
Increase in Costs:					
Salaries and Benefits	(16.1)	(21.8)	(24.8)	(26.2)	(27.4)
Retirement	(4.0)	(15.7)	(15.7)	(17.5)	(22.1)
Adult Detention Center Staffing	-	-	(15.5)	(18.7)	-
Other Costs	(1.8)	(1.6)	(2.3)	(2.3)	(2.8)
Ending Financing Available	<u>\$ (78.1)</u>	<u>\$ (50.4)</u>	<u>\$ (46.3)</u>	<u>\$ (52.5)</u>	<u>\$ (39.8)</u>

Due to the projected budget gaps, the uncertain revenue outlook, and operating cost pressures, the County Administrative Office has developed a mitigation plan in order to maintain a structurally balanced budget in 2009-10. The development of mitigation plans for the future years is in progress and each year will be adopted with a structurally balanced budget.



CONTINGENCIES

The County Contingencies includes the following elements:

Contingencies**Mandatory Contingencies**

Board Policy requires the county to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the county's operations, which could not have reasonably been anticipated at the time the budget was prepared. Funding is targeted at 1.5% of locally funded appropriation.

Uncertainties

Any unallocated financing available from current year sources (both ongoing and one-time) that has not been set-aside and any unallocated fund balance carried over from the prior year, is budgeted in the contingencies for uncertainties. Final budget action includes a provision that allocates any difference between estimated and final fund balance to this contingencies account.

Ongoing Set-Aside Contingencies

The county budget process differentiates between ongoing and one-time revenue sources. Ongoing set-asides represent ongoing sources of financing that have been targeted for future ongoing program needs.

	2008-09 Final Budget	2008-09 Mid-Year Approved Contributions/ (Uses)	2009-10 Recommended Contributions / (Uses)	2009-10 Proposed Budget
Contingencies				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	8,960,043		(519,493)	8,440,550
Uncertainties	49,342,651	(26,988,370)	(15,558,563)	6,795,718
Ongoing Set-Aside Contingencies				
Future Retirement Costs	7,900,000	(7,900,000)	-	-
Jail Expansion	7,000,000	(7,000,000)	-	-
Future Space Needs	20,000,000	(20,000,000)	24,000,000	24,000,000
Juvenile Maximum Security	4,000,000	(4,000,000)	-	-
Total Contingencies	97,202,694	(65,888,370)	7,921,944	39,236,268



2008-09 Mid-Year Changes to Contingencies for Uncertainties

In response to the anticipated continued decline in discretionary revenues in 2009-10, the Board approved an 8% reduction in discretionary funding to departments (except Law and Justice and Human Services) in 2008-09. Most of this 8% reduction was met by departments absorbing increased salary and benefit costs granted to employees in 2008-09 after the final budget was adopted. The portion not met by absorbing increased employee costs was \$5,379,141. This amount was achieved by reducing spending authority for general fund departments; thereby increasing ongoing sources in the Contingencies for Uncertainties by \$5,379,141.

For 2008-09 mid-year Board actions authorized the use of \$32,367,511 of the Contingencies for Uncertainties. These allocations include:

- \$10,000,000 in one-time funding to fund additional work on the High Desert Government Center Project.
- \$6,972,031 in one-time funding to purchase and furnish a new office building in Rancho Cucamonga. A related ongoing funding increase of \$6,642 results from elimination of lease costs for departments vacating leased space to relocate in the new building.
- \$4,665,013 in ongoing funding for increased salary and benefit costs for Law and Justice and Human Services departments granted to employees after the final budget was adopted.
- \$3,041,879 in ongoing funding to restore new positions and reclassifications to departments that were removed at the time the 2008-09 budget was adopted to allow for further review.
- \$2,700,000 in one-time funding to pay a settlement with LodgeMakers v. County of San Bernardino.
- \$2,500,000 in one-time funding to fund a contract with the Inland Empire Economic Recovery Corporation.
- \$1,250,000 in ongoing funding to increase priority policy needs funding by \$250,000 for each district.
- \$500,000 in one-time funding to provide support for the Performing Arts Facilities Expansion Project at California State University San Bernardino in the event they are successful in their grant application for the proposed project.
- \$300,000 in one-time funding for legal costs related to the LodgeMakers Settlement.
- \$250,000 in one-time funding for legal services relating to the possible removal of the Assessor.
- \$75,000 in one-time funding to fund a purchase order for consultant services on a project to entitle approximately 1,200 acres of property in Rancho Cucamonga.
- \$49,000 in one-time funding for leased office space in Needles.
- \$25,000 in one-time funding for expenses related to the Sheriff's Benefit Rodeo.
- \$24,230 in ongoing funding to fund an increase for per diem nursing staff working for the Sheriff's department.
- \$22,000 in ongoing funding for oral surgery services at the West Valley Detention Center.

2008-09 Mid-Year Changes to Ongoing Set-Aside Contingencies

County Budget Financing Policy 02-09 requires that remaining balances in the ongoing set-asides be transferred to the corresponding reserve account at the end of the fiscal year.

- Future Retirement Costs Ongoing Set-Aside:

It is anticipated that the entire set-aside of \$7.9 million will remain unspent at the end of the fiscal year and will be transferred to the Retirement Reserve.

- Jail Expansion Ongoing Set-Aside:

On March 3, 2009 the Board approved the use of the entire \$7.0 million set-aside to provide funding for the Central Valley Juvenile Detention and Assessment Center Project.

- Future Space Needs Ongoing Set-Aside:

On March 3, 2009 the Board approved the use of \$9.2 million of this set-aside to provide funding for the Central Valley Juvenile Detention and Assessment Center Project. It is anticipated that the remaining unallocated amount of \$10.8 million will be transferred to the reserve for Future Space Needs at the end of the fiscal year as required by County Budget Financing Policy.

- Juvenile Maximum Security Ongoing Set-Aside:

On March 3, 2009 the Board approved the use of the entire \$4.0 million set-aside to provide funding for the Central Valley Juvenile Detention and Assessment Center Project.

2009-10 Mandatory Contingencies

The base allocation to the mandatory contingency budget of \$8,440,550 is established pursuant to Board policy, based on projected locally funded appropriation of \$560.6 million.

2009-10 Ongoing Set-Aside Contingencies

As seen in the Reserves section, the county has set aside a significant amount of one-time money that can assist the county temporarily for unforeseen increases in expenditure or reductions in revenues. Beginning in 2005-06 the county also began to set-aside portions of ongoing funding for future use. In the 2008-09 final budget, the county has set aside ongoing revenue sources to finance future ongoing expenditures in four different areas: retirement, jail expansion, future space needs and juvenile security.

- Future Retirement Costs Ongoing Set-Aside:

For the past few years, the County has seen significant retirement cost increases and predicts additional future increases based on unfunded liabilities that have occurred primarily as a result of lower than expected market returns. Beginning in 2004-05, the Board set-aside \$7.9 million in ongoing revenue sources to assist in financing these cost increases at a future date. In the 2009-10 Proposed Budget this ongoing set-aside is eliminated and this amount is allocated to mitigate the impact of increased retirement costs due to market losses incurred by the County's pension system.

- Jail Expansion Ongoing Set-Aside:

Beginning in 2004-05, the Board has set-aside \$7.0 million of ongoing money to address the future needs of the County's growing population. In 2006-07, the Board allocated this set-aside to a specific use, increased jail space. In the 2009-10 Proposed Budget this ongoing set-aside is eliminated and the amount is allocated to mitigate the impact of discretionary revenue losses caused by the current mortgage and economic crisis.

- Future Space Needs Ongoing Set-Aside:

Beginning in 2006-07, the Board has set-aside \$20.0 million to address future space needs. This is based on a building analysis completed by staff. The space needs of the county continue to grow based on expansion of the area and the programs that service the county's population. In the 2009-10 Proposed Budget this set-aside is increased by \$4.0 million to a total of \$24.0 million. The additional \$4.0 million is funded by the elimination of the ongoing set-aside for Juvenile Maximum Security that is no longer required as the Central Valley Juvenile Detention and Assessment Center Project has been fully funded.

- Juvenile Maximum Security Ongoing Set-Aside:

Beginning in 2007-08, the Board has set-aside \$4.0 million for the construction of a new Central Juvenile Hall. This \$4.0 million was previously included in the \$19.3 million ongoing contribution to the Capital Improvement Program. In the 2009-10 Proposed Budget this set-aside is eliminated as the Central Valley Juvenile Detention and Assessment Center Project has been fully funded.

RESERVES

The county has a number of reserves (designations) that have been established over the years. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County. On January 6, 1998, the Board of Supervisors adopted a county policy to provide guidelines and goals for reserve levels. That policy calls for the county's general purpose reserve to equal 10% of locally funded appropriation. The Board of Supervisors also established specific purpose reserves to temporarily help meet future needs.

	6/30/08 Ending Balance	Approved 2008-09		6/30/09 Estimated Balance	Proposed 2009-10		6/30/10 Estimated Balance
		Contributions	Uses		Contributions	Uses	
General Purpose Reserve	57,217,492	2,516,125		59,733,617	-		59,733,617
Specific Purpose Reserves							
Future Space Needs	37,713,000	10,830,455 (1)		48,543,455	24,000,000 (2)		72,543,455
Retirement	38,600,000	7,900,000 (1)		46,500,000	-		46,500,000
Medical Center Debt Service	32,074,905			32,074,905			32,074,905
Jail Expansion	21,500,000	-	(21,500,000)	-	-		-
Juvenile Maximum Security	13,941,206	3,944,454	(17,885,660)	-	-		-
Teeter	17,747,201			17,747,201			17,747,201
Moonridge Zoo	4,750,000	1,000,000	(5,750,000)	-	-		-
Capital Projects	4,000,000			4,000,000			4,000,000
Insurance	3,000,000			3,000,000			3,000,000
Restitution	1,790,025		(120,000)	1,670,025			1,670,025
Electronic Voting	370,000		(95,000)	275,000			275,000
Business Process Improvement	4,390,033	-	(4,096,300)	293,733		-	293,733
Justice Facilities	119,316	21,246	-	140,562	-		140,562
Total Specific Purpose	179,995,686	23,696,155	(49,446,960)	154,244,881	24,000,000	-	178,244,881
Total Reserves	237,213,178			213,978,498			237,978,498

(1) Amounts represent estimated unspent ongoing set-asides that were included in the 2008-09 final budget in the appropriation for contingencies, and not budgeted as Contributions to Reserves. Per County policy unspent ongoing set-asides at the end of the year will be transferred to the corresponding specific purpose reserve.

(2) Amount represents ongoing set-aside that is included in the 2009-10 proposed budget in the appropriation for contingencies, and not budgeted as Contributions to Reserves. If this amount remains unspent/unallocated at the end of the 2009-10 fiscal year, it will be transferred to the corresponding specific purpose reserve per County policy.



2008-09 Planned/Approved Contributions

- \$2.5 million approved contribution to the General Purpose Reserve based on the 2008-09 final budget for countywide discretionary revenue which finances locally funded appropriation.
- \$10.8 million planned contribution to the Future Space Needs Reserve representing the 2008-09 ongoing set-aside that the County anticipates will remain unspent at the end of the 2008-09 fiscal year.
- \$7.9 million planned contribution to the Retirement Reserve representing the 2008-09 ongoing set-aside that the County anticipates will remain unspent at the end of the 2008-09 fiscal year.
- \$3.9 million approved contribution to the Juvenile Maximum Security Reserve from Probation Department savings in 2007-08.
- \$1.0 million approved contribution to the Moonridge Zoo Reserve.
- \$21,246 approved contribution to the Justice Facilities Reserve funded by unspent amounts on completed projects.

2008-09 Approved Uses

- \$21.5 million approved use of the Jail Expansion Reserve. On March 3, 2009 the Board approved the use of the entire reserve amount to provide funding for the Central Valley Juvenile Detention and Assessment Center Project.
- \$17.9 million approved use of the Juvenile Maximum Security Reserve. On March 3, 2009 the Board approved the use of the entire reserve amount to provide funding for the Central Valley Juvenile Detention and Assessment Center Project.
- \$5.8 million to fund the design, construction and relocation of the Moonridge Animal Park.
- \$120,000 from the Restitution Reserve to fund legal services related to the recovery of funds involving corruption activities of former employees, officers and private individuals.
- \$95,000 from the Electronic Voting Reserve to fund the Registrar of Voters share of the Information Services Department – Tenant Improvement Project.
- \$4.1 million in approved uses from the Business Process Improvement Reserve in the 2008-09 final budget. Uses of the Business Process Improvement Reserve include new allocations of \$2.2 million and allocations from the prior year for projects not yet completed of \$1.9 million. Funding for projects not completed within a fiscal year is carried over into the following fiscal year until expended. New allocations include \$0.8 million for the Sheriff's department data conversion project, \$0.4 million for Land Use Services web-based enhancements for development and construction plan review, \$0.4 million for a case management system in the Public Defender's office, and \$0.2 million to convert three branch libraries from barcode to radio frequency identification technology. Approved allocations for projects not completed in 2007-08 are \$1.8 million for the Sheriff's Laboratory Information System and \$59,300 for Public Health web services improvements.

2009-10 Proposed Contributions and Uses

For 2009-10 the general purpose reserve remains unchanged. Because locally funded appropriations are projected to decrease in 2009-10 no increase is proposed. This will maintain the balance of the general purpose reserve at \$59.7 million. No additional Reserve contributions or uses are proposed.

The chart on the following page shows recent history of the County Reserve levels.

	County Reserves History					Estimated	Proposed	
	Year End Actual Balances							
	2003-04	2004-05	2005-06	2006-07	2007-08			
						2008-09	2009-10	
Total General Purpose Reserve		34.8	37.2	41.7	52.5	57.2	59.7	59.7
Specific Purpose Reserves								
Future Space Needs		-	-	-	19.6	37.7	48.5	48.5 (2)
Retirement		7.0	7.0	14.9	30.7	38.6	46.5	46.5
Medical Center Debt Service		32.1	32.1	32.1	32.1	32.1	32.1	32.1
Jail Expansion (formerly Future Financing)		-	-	7.0	16.4	21.5	-	-
Juvenile Maximum Security		1.5	1.5	5.7	9.4	13.9	-	-
Teeter		19.3	19.3	17.7	17.7	17.7	17.7	17.7
Moonridge Zoo		-	-	-	3.8	4.8	-	-
Capital Projects Reserve		4.0	4.0	4.0	4.0	4.0	4.0	4.0
Insurance		3.0	3.0	3.0	3.0	3.0	3.0	3.0
Restitution		2.1	1.6	1.9	1.9	1.8	1.7	1.7
Electronic Voting System		-	0.5	0.5	0.5	0.4	0.3	0.3
Business Process Improvement		-	3.0	2.5	0.6	4.4	0.3	0.3
Justice Facilities		3.7	1.3	0.6	0.1	0.1	0.1	0.1
Museum's Hall of Paleontology		0.9	1.7	3.7	-	-	-	-
L&J Southwest Border Prosecution Initiative		3.4	1.9	1.7	-	-	-	-
Equity Pool		4.4	3.5	1.5	-	-	-	-
Bark Beetle		1.8	1.7	-	-	-	-	-
Total Specific Purpose Reserves	(1)	83.1	82.0	96.9	139.7	180.0	154.2	154.2
Total Reserves	(1)	118.0	119.2	138.6	192.2	237.2	213.9	213.9

(1) Totals may not add due to rounding.

(2) The Proposed 2009-10 column of this schedule includes only those reserve allocations included in the proposed budget.

Amount differs from the Total Reserves detail schedule presented on the previous page. The Total Reserves detail schedule presents estimated June 30, 2010 reserve levels, including estimates of final transfers of unspent ongoing set-asides to the corresponding reserve prior to fiscal year-end.

